

CITY OF SUMAS
Whatcom County, Washington
January 1, 1992 Through December 31, 1993

Schedule Of Findings

1. The City Should Improve Its Accounting For Fixed Assets And Inventory

During our audit of the city's fixed assets and materials and supplies inventory systems, we noted the following weaknesses:

- a. The city's fixed assets system fails to ensure that all assets are tagged with numbers which identify them as city property.
- b. The city did not perform a complete physical inventory of fixed assets during 1992 and 1993.
- c. The city does not maintain a subsidiary fixed assets ledger with which to reconcile physical inventory counts for their governmental funds.
- d. Physical inventory counts for materials and supplies cannot be reconciled to physical inventory records.

RCW 43.09.200 Division of Municipal Corporations - *Uniform System of Accounting* states in part:

The accounts shall show the receipt, use, and disposition of all public property

RCW 43.09.200 also requires the State Auditor to prescribe uniform accounting systems. The State Auditor prescribes the *Budgeting, Accounting and Reporting System* (BARS) manual which states, in Volume I, Part 3, Chapter 7, page 7:

Accountability for fixed assets is required of all local governments, regardless of size.

The BARS manual, Volume I, Part 3, Chapter 7, page 17 further states:

An adequate fixed asset accounting system will enable your government to meet statutory requirements, to produce adequate records and reports, and to safeguard assets properly.

The American Institute of Certified Public Accountants (AICPA) in its *Codification of Statements on Auditing Standards*, AU Section 319, Appendix D, states in part:

Establishing and maintaining an internal control structure is an important management responsibility. In establishing specific internal control structure policies and procedures concerning an entity's ability

to record, process, summarize, and report financial data that is consistent with management's assertions embodied in the financial statements, some of the following objectives management may wish to consider include the following:

Transactions are recorded as necessary (1) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements and (2) to maintain accountability of assets.

The recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences. [Emphasis ours.]

City officials were not aware of requirements over fixed assets in its governmental funds. The city does maintain records of its Utility Fund assets, although not all assets have been tagged. In addition, materials and supplies inventory records cannot be reconciled to actual physical inventory because (1) some items have been recorded as inventory which were not materials and supplies and (2) the utility crew has failed to notify the deputy clerk/treasurer of the use of materials and supplies needed for smaller projects.

Because the city does not account for its fixed assets, there is an increased risk that errors or irregularities may occur and not be detected in a timely manner, if at all. In addition, accounting records cannot be relied upon to determine the actual cost of materials and supplies inventory or to support the preparation of financial statements.

We recommend that city officials establish a fixed asset accounting system and perform physical inventory over fixed assets at least once every other year. We further recommend that the city improve its accounting for materials and supplies inventory.

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Whatcom County, Washington
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Schedule Of Federal Findings

1. City Officials Should Adopt A Drug-Free Workplace Policy

The City of Sumas has not adopted a formal policy by ordinance guaranteeing a drug-free work environment for its employees. Federal regulations require that such a policy be adopted by all recipients of direct federal funds. These same regulations (Public Law 100-690, Title V, Subtitle D, 41 USC 701 et seq.) state that the city can make such a guarantee by, among other things:

- a. Publishing a policy statement notifying employees that the unlawful manufacture, distribution, dispensing, possession or use of a controlled substance is prohibited in the workplace and specifying the actions that will be taken against employees for violation of such prohibition.
- b. Establishing an ongoing drug-free awareness program for employees.
- c. Informing all employees of the policy statement and the consequences of violating the policy.
- d. Notifying the grantor agency of any violations of the policy.

Making the required certification has been a precondition of receiving a grant from a federal agency since March 18, 1989.

The city's personnel policy does contain prohibitions against substance abuse and actions that may be taken in instances of known substance abuse. City officials were not aware of the specific requirements of the Drug-Free Workplace Act.

Noncompliance with grant requirements could jeopardize future grant awards.

We recommend that the City of Sumas comply with the requirements of the Drug-Free Workplace Act.

2. The City Should Comply With The Requirements Applicable To Its Federal Programs

During our review of the Bonneville Power Administration's Weatherwise, Energy Smart Design, and Residential Conservation Programs, we noted the following immaterial instances of noncompliance with program requirements:

- a. Reimbursement for one non-low income customer's weatherization procedures were claimed at low income rates.
- b. One customer file reviewed did not contain a signed privacy act notice which also informs the customer that kickbacks, rebates, or other nonprogram benefits from installers are prohibited.
- c. Reimbursement for costs expended under both the Weatherwise and Energy Smart Design Programs during the period October 1, 1992, to March 31, 1993, were not made in a timely manner. In addition, some reports of claims for reimbursement for all programs were not readily available.

Eligibility requirements for low income persons for the weatherwise program are at 125 percent of federal poverty guidelines and are documented in the program manual. The Weatherwise Program, Section 13, Contractor's Duties, part (d) and (e) also state:

The Contractor shall provide a Privacy Act Notice to each homeowner before information is collected for use under any of the options. The Homeowner shall be informed that kickbacks, rebates, or other non-program benefits from Installers are prohibited.

Section 13 part (g) and Section 18 of the *Weatherwise Program Agreement*, "Reporting" and "Program Reports", respectively state:

The Contractor shall submit claims to Bonneville for Administrative Costs and Incentives . . . The Contractor shall submit reports to Bonneville on a monthly or quarterly basis, as appropriate.

RCW 43.09.200 states in part:

The system shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction.
[Emphasis ours.]

City officials are not aware of the causes for noncompliance. The energy manager who was responsible for the requirements applicable to the Bonneville Power Administration grant programs is no longer employed by the city.

The claim for reimbursement using the low income method results in questioned costs of \$1,602.68. In addition, noncompliance with grant requirements could jeopardize future grant awards.

We recommend that the city take appropriate action to ensure that grant requirements are adhered to. We further recommend that the city take appropriate measures to reimburse Bonneville Power Administration for the amount it received as an overaward.